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TAGS: [PREL](#) [PGOV](#) [ECON](#) [GG](#)
SUBJECT: ECONOMIC DEVELOPMENT MINISTER ARVELADZE ON
STIMULATING INVESTMENT

Classified By: Ambassador John F. Tefft for reasons 1.4(b)&(d).

Summary

1. (C) In a May 28 meeting, Georgian Minister of Economic Development Giorgi Arveladze described to Joseph Wood, Deputy National Security Advisor to the Vice President, Georgia's efforts and successes in attracting foreign investors in a broad range of sectors. Arveladze said the government's philosophy was to try to create opportunities and to stay out of the economy as much as possible. He said the government was seeking to lower interest rates, which at their current high levels are preventing many Georgians from starting their own family businesses. Arveladze said Georgia was taking a technical approach to negotiations over Russia's WTO accession, concentrating on Russia's unfulfilled commitments in its bilateral WTO agreement with Georgia to legalize the economic border, i.e., to allow customs checkpoints where Russia borders Georgia's separatist regions of Abkhazia and South Ossetia. End Summary.

Investment on the Rise

2. (C) Arveladze began the breakfast meeting with Wood and the Ambassador by recounting a recent privatization auction for property around Lisi Lake in Tbilisi. Arveladze said he had expected the land to go for around USD 50 million; in the end, it was bought by a Georgian company for USD 182 million, beating out several foreign investors. Arveladze said this exemplified the trend in investment in Georgia. Using Israel as an example, Arveladze said Israeli investment in Georgia topped the rankings in the mid-1990s, primarily because of Georgian-Israeli businesspeople. As international investment in Georgia has broadened, Israel has moved down the list, but a large number of Israelis have purchased real estate in Georgia in recent years. Arveladze said a recent Georgian economic forum in Israel had been a huge success, revealing serious interest from many firms that had no previous connections to Georgia. Arveladze said a number of Israeli investors in Georgian real estate were beginning to show an interest in manufacturing as well.

3. (C) Arveladze said his goal was to keep the government out of the economy as far as possible, while trying to create opportunities. He said Georgia today had some advantages over eastern European economies of 15 years ago, many of which were still suffering from corruption and bad management at that time. He noted that Georgia had an attractive labor force that was low-cost, educated, and hard-working, and that Georgia had moved up dramatically in the most recent World Bank survey on the ease of doing business. Arveladze noted that the banking sector in Georgia was booming, a consequence of the legalization of the economy after the Rose Revolution. Unfortunately, he added, there were now so many businesses seeking loans that the banking system could not meet the

demand except with a very high interest rate. He said the government had a plan to use commercial banks for government funds, and thereby ensure lower interest rates while also taking care to deal with the challenge of inflation. Arveladze said that if interest rates were lower, practically every family in Georgia would be ready to start a business of its own.

A Low-Key Approach to Russia's WTO Negotiations

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¶4. (C) Asked about Russia's WTO aspirations, Arveladze said Georgia was treating it as a technical issue. He noted that in 2004 Georgia and Russia signed a WTO bilateral agreement in which Russia accepted responsibility for "legalizing the economic border" through customs checkpoints, which were especially needed on the parts of the border controlled by the separatist authorities. (Note: These areas are uncontrolled by Georgian authorities and are a source of smuggled goods, people, and potentially WMD into Georgia.) This commitment has not been fulfilled, Arveladze said, adding that the agreement is explicit despite Russian claims that this is not a WTO issue. Arveladze said Georgia saw no reason to emphasize its other trade issues with Russia -- such as the bans on export of Georgian wine, mineral water, and agricultural products -- in the WTO context, because Georgia did not want to "look like a whiny country creating problems" for Russia's WTO accession.

¶5. (C) Arveladze said a Free Trade Agreement (FTA) with the U.S. would be a strong signal of U.S. political confidence in Georgia, and he expressed hope that the Trade and Investment Framework Agreement (TIFA) that Arveladze would sign during his upcoming trip to Washington might lay the groundwork for additional steps later. He noted that Europe gave an FTA to Estonia when it was in a similar situation in 1990s, when

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Estonia successfully re-oriented its economy after a Russian embargo and undertook reforms to defeat internal corruption. Touching on the recent cyber-attacks against Estonia, Arveladze conceded that Georgia was probably vulnerable to a similar assault.

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